

VZCZCXRO7077
RR RUEHBZ RUEH DU RUEHMR RUEHRN
DE RUEHLG #0610/01 3171044
ZNY CCCCC ZZH
R 131044Z NOV 09
FM AMEMBASSY LILONGWE
TO RUEHC/SECSTATE WASHDC 0058
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHLO/AMEMBASSY LONDON 0412
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 LILONGWE 000610

SENSITIVE
SIPDIS

LONDON FOR AF WATCHER PETER LORD

E.O. 12958: DECL: 11/13/2019
TAGS: [ECON](#) [EFIN](#) [EAID](#) [MI](#)
SUBJECT: MALAWI BLINKS, AGREES TO POLICY PACKAGE ACCEPTABLE
TO IMF

REF: A. LILONGWE 594
[B](#). 08 LILONGWE 700

LILONGWE 00000610 001.2 OF 002

Classified By: Ambassador Peter W. Bodde, Reasons 1.4 (b) and (d).

[1](#)1. (U) Summary: A recent IMF mission to Malawi has reached an agreement with the GOM that will allow Malawi to obtain a new support package. The GOM has made macro-economic and structural policy commitments on fiscal and monetary discipline and a liberalization of the exchange rate regime. The size and characteristics of the new support package will depend heavily on the extent to which the GOM follows through on these commitments. The present agreement is a positive development for donors seeking to maintain continued budget support. End summary.

GOM, IMF Reach Agreement

[1](#)2. (U) On November 10 at a joint briefing for the donor community, the GOM and a visiting IMF team announced an agreement that will enable Malawi to negotiate a new IMF support program (ref A). Malawian Minister of Finance Ken Kandodo explained that the GOM's objectives were to pursue continued high growth rates, following the priorities outlined in the Malawi Growth and Development Strategy (MDGS) and to maintain inflation in single digits at least until [1](#)2014. He added that the agreement allows Malawi to meet its development goals while also addressing IMF concerns. IMF Country Director for Malawi Janet Stotsky concurred that the IMF and GOM had made good progress on a framework for an Extended Credit Facility (ECF).

The Way Forward

[1](#)3. (U) IMF Resident Representative Maitland MacFarlan told us the GOM agreed to reforming the exchange rate regime, characterized as a "crawling band." The actual rate will be allowed to float within an announced band, which the GOM will periodically adjust to correlate with the Real Effective Exchange Rate (REER - a weighted average of major bilateral exchange rates). Initially the band will be set around the currently existing exchange rate.

[1](#)4. (U) MacFarlan said the GOM did not make specific commitments on fiscal policy, but did agree to greater restraint. It agreed to a continued net repayment of debt, targeting 1.5 percent of GDP in 2009/10, which is slightly more than stipulated in the legislated budget. The GOM also agreed to hold spending within budgeted and actual revenue limits.

¶5. (U) According to MacFarlan, the GOM agreed to undertake macroeconomic structural measures, such as reform of parastatal operations. He noted that these could include cost-recovery of utility tariffs, or reform or privatization of loss-making parastatals.

ECF Will Reward Performance

¶6. (U) MacFarlan explained that the IMF will consider Malawi's performance in January when the country team briefs the IMF Board, which will consider whether to approve an ECF for Malawi. The extent to which the GOM demonstrates seriousness in following through on the commitments made to this mission will determine how an ECF, if approved, will be structured. The access rate for the ECF program is typically 75 percent of a country's quota, but MacFarlan explained that this rate could be exceeded. Disbursements could also be structured to be front-loaded, or back-loaded.

¶7. (SBU) MacFarlan said there is little willingness remaining at IMF headquarters to accept GOM commitments at face value. He noted that regarding fiscal policy, the IMF will want to see a plan for meeting budget targets, including actions to be taken if underlying projections (such as revenues) are not met.

¶8. (U) MacFarlan also noted that the GOM's performance will remain important after an ECF program is approved. He said, if the GOM falls "off track" by failing to meet the agreed targets, the IMF will withhold scheduled support disbursements. The IMF withheld over USD 25 million in disbursements over Malawi's failure to meet the objectives of last year's Exogenous Shocks Facility (ref B).

LILONGWE 00000610 002.2 OF 002

Comment

¶9. (C) While we welcome the progress the GOM and IMF have made toward solving Malawi's foreign exchange deficit, past GOM performance in meeting IMF measures for fiscal discipline has been mixed at best. It remains unclear if the GOM has the political will or stomach to take the hard steps needed to show fiscal discipline. While the IMF was clear in its message, it is not certain their message and its implications were fully understood.
BODDE